

DOING BUSINESS WITH ASIA

Address by Senator Gareth Evans, Minister for Foreign Affairs and Trade, to launch the Asia Business Connection, Parramatta, 5 August 1992

I can think of no better location to launch an organisation dedicated to generating business and related connections with Asia than here in this Western region of Sydney - which is fast growing, energetic, and has its own vibrant Asian community.

Gough Whitlam was the first Australian Prime Minister to really break the mould in Australian thinking about Asia, making us begin to see Asia as a source not of threat but of opportunity. In 1979 he delivered a lecture in Adelaide on the subject of "Australia and Asia", in the course of which he said this:

In the 1950s and 1960s it was appropriate to describe our region as the most turbulent and deprived in the world. This description will not hold in the 1980s and 1990s. If the last three centuries were pre-eminently the age of the North Atlantic, the 21st century will be the age of the Pacific. Australia will need to be as close economically to her neighbours as she is geographically. It follows that Australia's preoccupations in foreign policy will be primarily economic, not military.

Well, as Gough might have said, "And so it came to pass". Today I want to talk to you about how the profound changes that have taken place over the last few years, both in Asia and in Australia, have generated massive new business opportunities for Australia in Asia, and how Australia is seizing those opportunities and adapting to new changes as the pace of economic growth in Asia accelerates. And I would like also to focus specifically on how the Australian Government is now helping the private sector to do business in Asia.

In one short generation, Asia has undergone a fundamental transformation. From a scatter of poor, often unstable, developing economies, Asia is now the world's most successful economic region. For the first time in 500 years, the centre of global economic gravity is set to return to East Asia in the 21st century.

Japan has played the key role in this revolution, generating, through its own economic success, an orbit of growth into which it has pulled other regional economies. Taiwan and Korea are now rapidly closing the technological gap with Japan, and Taiwan, Hong Kong and Southern China are creating their own crescent of prosperity.

South East Asia has developed rapidly from a much lower base. Growth is uneven, but nevertheless set to continue. Indochina is further behind. But the recent burst of activity in Vietnam - partly a product of the end of the Cold War and the change in the regional political environment that has accompanied it - provides real opportunities, though not without risks, as it embarks on a massive modernisation program.

The pattern of trade and investment flows into and around the region has interlocked North East and South East Asian countries' interests more intensively than ever before. As one North American academic recently put it, "Eastern Asia is a production zone linked by investment, trade and horizontally integrated manufacturing". This web of regional economic relationships includes intensified investment flows not only from Japan, but from other North East Asian economies to South East Asia; newly developing formal and informal economic zones; and the integration of economies at the production level - with suppliers in different locations, and different firms, producing individual components of the production chain. Another important factor in Asia, both reflecting and promoting growth, is the gradual opening and liberalising of Asian economies. Although the process has in some cases, not least Japan, been agonisingly slow, Asian markets are becoming more accessible to imports of a number of goods and services.

These developments have brought with them important lifestyle changes. Japan's ageing population is now wealthy and sophisticated; more women are working, and leisure is important. In South East Asia, a huge, young middle class is gradually emerging, with all the needs and wants of a prosperous consumer society. People are moving in very large numbers to cities in a wave of urbanisation. Massive spending on infrastructure is taking place, with Japan, Hong Kong and Taiwan in particular planning major developments over the next few years.

This is the Asia of today. Where does Australia fit in? On one level, we have been doing business with Asia for a very long time. There has long been a natural fit between our raw materials and the needs of North East Asia as it industrialised. Japan has been our largest market since 1966 (and our largest overall trading partner since 1970). During the 1950s and early 1960s Hong Kong, Singapore, South Korea and Taiwan also adopted policies of export-oriented industrialisation, requiring massive inputs of raw materials. There has also been a long history of involvement of Australian engineers, technologists, scientists, teachers, health and medical specialists, accountants, lawyers and technical people in the region. In addition, scores of thousands of Asians, many of them now in senior positions in their own countries, studied here.

But until recently, the extent of economic linkages between Australia and Asia were limited to these fairly simple exchanges. And if the opportunities were restricted by the relative poverty of our regional neighbours, they were profoundly hindered by our protectionist, inward looking economy, and our continuing reliance on raw materials

exports. Those days have passed. Just as Asia has changed, so have we. The need to link our economy more closely with Asia's growth has been one of the key assumptions underlying the Government's vigorous economic reform program. Opening and internationalising the Australian economy, particularly through tariff reductions, has liberated competitive Australian companies from the shackles of inefficient activities. Australia's inflation rate, now well under 2 per cent, is lower than that of most of our trading partners.

The process of microeconomic reform and increasing cooperation between the Commonwealth and the States on a whole range of issues is starting to pay off in reduced costs and greater efficiencies. Australian companies have moved quickly to take advantage of the restructured economy to go international. After years of stagnation, exports as a proportion of our national product have increased from 15 per cent to over 20 per cent in just seven years. The growth rate of our export volumes was more than twice the growth rate of world trade in 1990, and almost four times in 1991. In terms of manufactured export volumes, we recorded the fastest growth in both 1990 and 1991 of any OECD country. Manufactured exports - including sales of everything from office machinery, and aircraft and car parts, to engines and pharmaceutical products - have in fact more than doubled since 1986, and their share of merchandise exports has increased by over one third to 17 per cent.

The services sector has assumed an increasingly important role in Australia's export profile, having more than doubled since the mid-1980s. Services now account for almost one quarter of total export receipts - larger than any other sector of the Australian economy. And we have the potential to become a net exporter of services by the end of this century.

All this has flowed through into a massive expansion of our economic relationship with Asia. Almost 60 per cent of our exports go to East Asia and 40 per cent of our imports come from there. Eight East or South East Asian markets are among our top twelve, as are six of our twelve largest import suppliers. Asia is the major source of business migrants, tourism, investment and the most important market for our education exports.

Exports to North Asia reached \$24 billion in 1991, almost 45 per cent of our total merchandise earnings and nearly 80 per cent above the mid-1980s level. Exports to South East Asia alone have trebled since 1986 to reach \$6.6 billion in 1991, accounting for around one-eighth of total exports. We now sell more to the six countries of ASEAN than we do to the EC12 - a marked change from the late 1970s when the EC share of our exports was twice as large as that of South East Asia.

And Asia, especially South East Asia, is the fastest growing market for both our simple - and more importantly, our sophisticated and higher value - manufactures. Manufactured

exports to North Asia grew nine-fold to \$4.5 billion in the decade to 1991, and to South East Asia they quadrupled to \$2.4 billion. The expansion in exports of elaborately transformed manufactures has been particularly strong - from \$207 million in 1981 to \$1.7 billion in 1991 for North Asia, and from \$389 million to \$1.5 billion for South East Asia over the same period. Growth in manufactures has thus led to an improvement in Australia's overall market share in ASEAN - a tremendous achievement when you consider how far and fast those economies have grown. We lost market share in North East Asia in the ten years to 1987, but since then we've held it, despite the growing size of the markets, the stiff competition and the declining value of our commodities.

Let me give you some snapshots of specific Australian success stories in Asia:

- . officials at the Japanese Ministry of International Trade and Industry - the awesome MITI - learn to type (in Japanese, not English) using Australian software from a little company called Typequick;
- . an Australian engineering consultancy firm is joint manager with a Japanese company on a massive housing development in Jakarta, including 27 high rise buildings;
- . Singapore's favourite health food bar is Uncle Tobys, and I can claim some personal credit for the fact that Mars Bars are now in most international hotel fridges in Bangkok;
- . when you go to Hong Kong, you'll experience the benefits of Australian road traffic control systems;
- . and Australia is still the number one destination for Japanese honeymooners - as indeed Japan is the largest single source of tourists visiting Australia, spending nearly \$1.6 billion here last year.

The Western area of Sydney is producing its own big success stories. Only a few weeks ago a company based at Wetherill Park, Cryofab Industries, sent five giant cryogenic (or very low temperature) tanks to Thailand, in a deal worth \$2.5 million, and won against strong American and Japanese competition.

Austrade's exporters' database holds 160 active exporters in Paul Elliott's electorate, and the actual figure is probably upwards of 200. 50 per cent of Austrade's Sydney clients, representing small, medium and large businesses, are from Western Sydney.

In a survey of Australia earlier this year, the **Economist** magazine commented that Australia was playing in the "toughest game in the world - Asia". And Australians who do

business in and with Asia are undoubtedly meeting the highest international standards of competitiveness. The trade performance I have outlined puts to rest forever the gloomy messages of those who would say we have no future, commercial or otherwise, with Asia - for we are already, and comprehensively, there. If our future lies with Asia, then we are well on the road to that future.

But the future is, of course, by no means guaranteed. We have to be conscious that Asia, consisting of both our major markets and, in many instances, our major competitors, is changing, and fast. We are chasing a moving target. Japan is only going to strengthen both its economic pre-eminence generally and its importance as a trading partner to Australia. It is worth noting that Japan spent \$US662 billion upgrading its plant and equipment in 1991: at a growth rate of only around 3 per cent, Japan adds on an entire Australian economy in three years!

Korean, Taiwanese and Singaporean capacity will also be energised by a massive investment in education. ASEAN's combined GDP, once well below ours, has now just overtaken us and will accelerate ahead with predicted growth rates of over 6.5 per cent. And Southern China is the probably the fastest growing area in the world.

We are going to be dealing with very rich, sophisticated and demanding markets and confident and successful competitors. Instead of slowing down, the rate of technological change is accelerating as we approach the next century. Asia is going to become even more economically integrated, moving beyond national borders to multi-sourced production of goods.

What this means is that old-style exporting will no longer be enough. We need to be as sophisticated as our regional partners about doing business. Massive two-way investment will be crucial to our becoming part of the Asian chain of production. We need to build business and social linkages with Asian partners both here in Australia and in our Asian markets if we want to participate fully in the dynamic Asian economic community.

Here in the Western area of Sydney, the obvious way to go is to harness the talents, experience and close ties of the local Asian community, in a way which broadens and deepens the cultural, educational and business links with our Asian neighbours.

What, specifically, is the Australian Government doing to help Australia do business in Asia? The Government's strategic approach to the pursuit of our long term economic interests brings together all the resources and energies of our foreign and domestic policies. At home as you know we have made major changes to the Australian economy over the last ten years; changes which have not been without pain, but which are substantively paying off in international business success. It has been our domestic measures which have had, and will continue to generate, the greatest impact on our

foreign exchange earnings.

Our international economic policy embraces both a combination of global, regional and bilateral strategies. At the global level, the Government is working hard to strengthen international trading rules through the GATT. As my colleague John Kerin constantly points out, multilateral trade liberalisation under GATT is effectively equal to bilateral trade liberalisation being achieved with 108 nations: it is not something remote or abstract, but rather the equivalent to literally thousands of separate tariff and non-tariff barrier reduction negotiations involving individual products and services. We thus remain committed to this process and to an outcome of the Uruguay Round which produces fairer rules for global trade.

But at the same time we are positioning Australia to succeed as a trading nation regardless of the outcome of the Uruguay Round. Whatever happens in the global trading environment, Australia's trade, investment and technology links will be increasingly with our Asian region. These links encourage, and are encouraged by, our further economic and political engagement with the region.

So we are seeking to build regional trade and economic arrangements which take us beyond what we are able to achieve through global consensus. The Asia Pacific Economic Cooperation - or APEC - process holds great promise in this next phase. As APEC develops further, we see potential for significant region-wide economic cooperation - in crucial areas like energy, communications and human resource development, as well as in a concerted push for region-wide (but GATT consistent) trade liberalisation.

At the bilateral level, the Commonwealth Government has always been closely involved in negotiating improved access for Australian goods and services, and in trade promotion activity. My colleague in this portfolio John Kerin, the Minister for Overseas Trade and Development, has been working for some time on a National Trade Strategy to bring together the Commonwealth, the States, industry associations and unions to coordinate and strengthen Australia's export and investment promotion, country by country and region by region. By exchanging information and ideas, by eradicating duplication and unproductive competition, and by developing a cohesive and focused outlook, we will significantly improve our success in the international marketplace.

Austrade, in the year or so since it was comprehensively restructured (and became attached to my Department), has strongly increased its focus on Asia and its capacity to assist Australian business people there. Fully 50 per cent of Austrade's overseas resources are now in Asia, from posts in principal Asian cities to provincial locations where smaller exporters can make a lower risk, lower cost market entry. At home, Austrade has established specialist teams to work closely with companies of high export potential, particularly to Asia.

Austrade has a range of financial schemes available to support and enhance the efforts of Australian exporters. For example, Austrade has recently approved an enhanced marketing plan for Asia submitted by Cryofab Industries which I mentioned earlier, and, subject to contracts being exchanged, will co-fund the company's plan with \$2.1 million from the International Trade Enhancement Scheme.

The Government recognises as crucial to our long term success that Australians know Asia - this means that we develop a solid core of expertise in speaking Asian languages, understanding Asian business and political cultures, and in the accurate identification and assessment of developments in Asia which will affect our interests. We have created a new Asia-Pacific Fellowships program, managed by Austrade, to encourage business people to build their Asian expertise through language and business training on the ground, and Austrade is working closely with educational institutions to improve the quality of exporter education, and its relevance to exporting companies. The East Asia Analytical Unit, located in my Department, is also working closely with the business community on a major report analysing Australia's trade and investment relations with South East Asian markets, and developing strategies to capture the opportunities there.

At the end of the day, of course, it is up to business people themselves to grasp the opportunities that are there for Australia in Asia: governments can only do so much in setting the ring. But I think it's fair to say that over the ten years of this Government, the business community has risen to the opportunities and the challenges of playing in the tough Asian game.

Much more remains to be done, of course, if we are to secure and strengthen our economic links with Asia. But I am confident that, if the sort of spirit, confidence and energy apparent in this part of Sydney prevails throughout Australia, we will achieve these goals - and become a nation that really has learned to come to terms with its own geography, and to reap the rewards that flow from living as we do in such a vibrant and exciting part of the world.

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QUOTES

Page 1 E G Whitlam, "Australia and Asia", Flinders University of South Australia 10th Annual Flinders Lecture in Asian Studies, 1979 (Flinders Asian Studies Lecture 10).

Page 2 Paul Evans, Director, University of Toronto-York

University Joint Centre for Asia Pacific Studies, "A North American perspective on the Pacific in the 1990s: On the Pacific or Of the Pacific?", address to the 18th National Conference of the Australian Institute of International Affairs Brisbane, 12 April 1992.